

COTTON COVERAGE

A comprehensive review of global market conditions

Christmas is just around the corner which thankfully gives many of us something positive to look forward to as drought continues to plague much of Queensland and NSW. The fate of the 2020 Australian cotton crop seems all but sealed as we head into December. Any rainfall received now will likely favour planting of sorghum and/or mungbeans over cotton. So, the stage is set for our smallest crop in a decade at less than one million bales.

Speculators continue to have a major influence on cotton prices, and this certainly was the case during 2019. They were the major driver behind the epic 40USc/lb drop in futures over nearly an 18-month period ending in August 2019 at 56.19USc/lb. And looking forward speculators will likely remain a key driver of direction during the 2020 crop year. After a recent 'buying spree', speculators have turned to net sellers again during the back half of November. A lack of progress in US/China trade negotiations and a weakening economic growth outlook are perhaps behind the change in momentum.

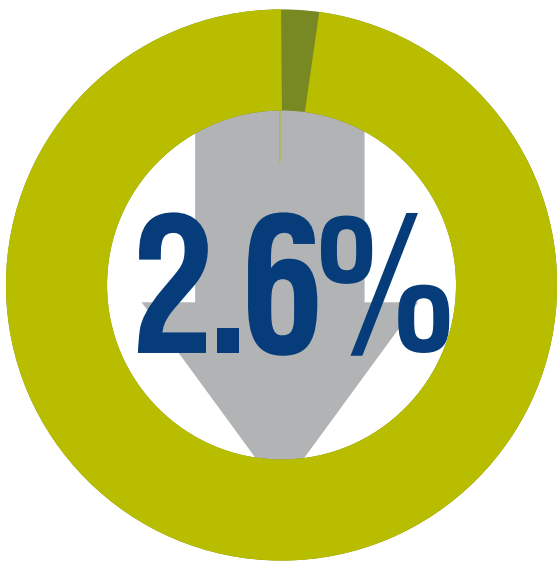
The technical outlook took a more bearish turn during late November thanks largely to the selloff by speculators mentioned above. The March-2020 futures contract has reached resistance at 67.00 cents, and during the last week of November has moved back towards the mid-60s level. The market has been contained to tight trading ranges and seems likely to continue in this fashion.

Picking continues to build pace in the US with the crop looking increasingly likely to come in on the lower end of projections. The USDA currently has the crop pegged at 20.82 million bales. The weekly US Export Sales and Shipments report shows Pakistan and Turkey have been stronger buyers of US cotton of late. But contract cancellations into China continue to plague merchants.

And finally, we can't ignore developments in the US/China trade negotiations given the impact on not just the macroeconomic environment but the flow on impact on the cotton market and global consumption of cotton. Unfortunately, progress, or lack thereof, remains as unclear as ever. But as time slips away it appears increasingly unlikely that the Phase 1 deal will be signed before the years end. We will no doubt be continuing to 'watch this space' during 2020.

Well that's a wrap for 2019! We wish you and your family a very Merry Christmas and safe and happy New Year.

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World consumption is expected to increase to 121.49 million bales in 2019/20

World production expected to increase to 121.94 million bales in 2019/20

